Economic Trends

Alberta's economic recovery is becoming more broad-based. Non-energy exports grew year-over-year for the second month in a row while manufacturing shipments continue to rebound. Retail sales in some categories have also started to show signs of improvement. With the recovery solidifying, the unemployment rate has fallen and EI claims have come down. Overall construction costs are also stabilizing along with the pick up in activity. This month's InFocus discusses the 2016 contraction in real GDP by industry for Alberta.

Key Indicators

Seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Alberta Activity Index (y/y growth)	March	+5.6%	+11.8 p.p.
Employment (thousands)	April	2,289	+0.8%
Unemployment Rate	April	7.9%	+0.5 p.p.
CPI Inflation (unadjusted)	April	1.7%	+0.2 p.p.
Retail Sales	March	$6.6 B	+7.2%
Housing Starts (annualized)	April	31,218	+9.0%
Rigs Drilling (unadjusted)	May	61	+143.7%
Manufacturing Shipments	March	$5.8 B	+15.7%
Exports (unadjusted)	April	$8.4 B	+55.6%

Source: Alberta Treasury Board and Finance, Statistics Canada, CAODC, CMHC.
p.p.= percentage points.

Alberta Household Sector

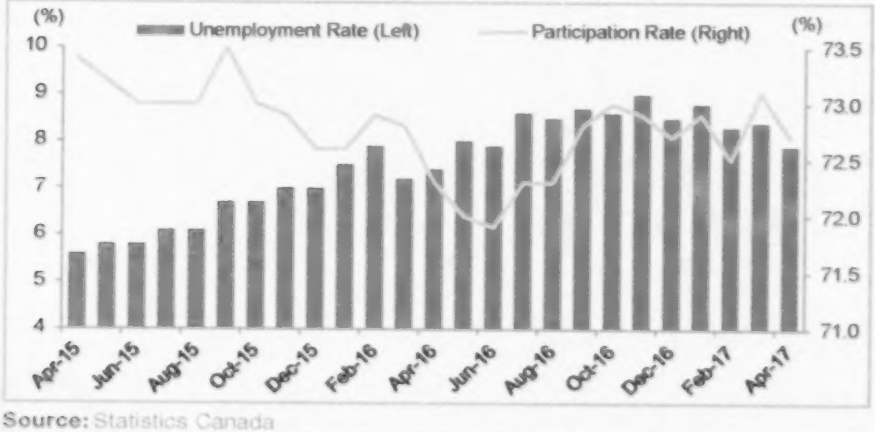
Unemployment rate eases

The unemployment rate in Alberta has fallen. Although the province has added over 21,000 jobs between December 2016 and March 2017, unemployment remained high during this period as labour force continued to grow (Chart 1). In April, the unemployment rate declined to 7.9% as the labour force participation rate fell back below 73% after reaching a 22-month high in the previous month (Chart 1). With fewer Albertans unemployed, the number of people receiving regular Employment Insurance (EI) benefits continued to ease in March to its lowest level since June 2016. Ongoing declines in initial claims combined with slowing growth in renewal claims have lowered total EI claims. Although the unemployment rate and the number of EI beneficiaries are receding, they remain elevated.

Services prop up earnings growth

Earnings are showing tentative signs of stabilization amid improvements in the labour market. Average weekly earnings (AWE) edged higher in March following declines in the previous two months. AWE have been supported by continued gains in the service sector, while goods sector earnings have edged lower in recent months. In particular, AWE in the oil and gas industry have weakened in the first quarter of 2017 after showing signs of improvement in 2016. Despite stabilizing, AWE remain below levels from a year ago and are close to the 2016 annual average.

Chart 1: Lower part rate pulls down unemployment rate in April
Unemployment rate and labour force participation rate in Alberta



Source: Statistics Canada

Uneven recovery in resale market

Alberta's resale housing market continues to improve, boosted by strong activity in major cities. In April, the number of home sales grew by over 10% in Calgary and Edmonton compared to the same month last year. Conversely, the number of home sales remained weak in other regions in the province, particularly in South Central, Fort McMurray, and Lloydminster regions. At the provincial level, home sales have increased in four of the last five months and are now at pre-recession levels. There's also regional divergence in house prices across the province. Average resale house prices in Edmonton and Calgary have improved

and are close to the record levels in 2014, whereas house prices in other regions remained well below pre-recession levels.

Retail sales back to pre-recession levels

Retail sales in the province have been climbing since July 2016 and have recovered almost all of the losses incurred during the economic downturn. While the recovery was initially limited to motor vehicles and gasoline station sales, other categories started to show signs of improvement in March, most notably in electronics and appliances, and building materials and garden supplies. Compared to a year ago, retail sales were up over 7% in the first quarter of 2017.

Alberta Business Sector

Syncrude fire curbs oil production

Total oil production in Alberta retreated in March after increasing in the previous two months. The monthly decline was largely due to an explosion at Syncrude's Mildred Lake oilsands facility. The fire forced an early shutdown of the facility and reduced synthetic crude production. The facility is not expected to return to full operations until mid-June. In contrast, conventional production, which fell sharply in the last two years, has risen in the past five months in response to the pick up in drilling activity. Average rig counts in the first five months of the year were more than the double the same period last year.

More sectors joining the recovery

The recovery in business output appears to be broadening to sectors outside of oil and gas. Non-energy exports grew year-over-year for the second consecutive month in April following declines over the last two years. This reflects increases in major categories such as basic, industrial chemical, plastics, and rubber products; consumer goods; and forestry and building products. Manufacturing shipments have also grown steadily due to widespread growth across sectors. Chemicals and durable goods in particular have picked up momentum in recent months and have helped offset some of the easing in petroleum and coal shipments.

Strong start for agriculture

Farm income in the province started 2017 on a strong note, boosted by higher canola and soybean prices. Farm cash receipts grew year-over-year for a second quarter in a row to reach $4.1 billion in the first quarter of 2017. This builds on a strong year in 2016 when net farm income surged 60% to reach $2.1 billion. Some of the increase was due to a build-up of inventories, partly reflecting poor weather conditions. While crop receipts have been increasing on a year-over-year basis through most of the downturn, livestock receipts remained weak as prices of cattle and calves continued to fall after peaking in 2015.

Overall construction costs stabilize

Overall construction costs are stabilizing following two years of decline. For the third consecutive quarter, both apartment and non-residential building construction costs grew on a quarterly basis in the province (Chart 2). However, trends are diverging between the two major cities. Construction costs in Calgary have picked up across all building types since the middle of 2016. Conversely, construction costs in Edmonton remain lower as commercial and industrial construction costs continue to fall while costs in other sectors have stabilized.

Chart 2: Building construction costs stabilize in Alberta

Quarter-over-quarter growth in Alberta building construction price indices

Source: Statistics Canada

Outside Alberta

Turnaround in business investment

The Canadian economy grew at a robust pace in the first quarter of 2017. Canadian real GDP growth accelerated to an annualized pace of 3.7%, faster than the average growth of 3.5% recorded in the previous two quarters. While consumer spending and residential investment continued to grow at a solid pace, business investment rebounded sharply after remaining weak in the past two years. Conversely, real GDP growth was weighed down by rising imports and a small decline in exports.

Oil supply glut persists

OPEC and 11 other producing countries have agreed last week to extend existing output cuts of 1.8 million barrels per day (bpd) through to March 2018. Nigeria and Libya continued to be excluded from the cuts due to political unrest hampering production in these countries. Despite the agreement, oil prices fell the day of the announcement amid market concerns that the deal would not be enough to resolve the global supply glut.

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Alberta's GDP by industry in 2016

Alberta's recovery is firmly taking root following a difficult two-year period for the provincial economy, caused by the collapse in global oil prices. According to preliminary estimates from Statistics Canada, in 2016 real GDP by industry declined 3.8% (Chart 1). These estimates, released in May, are the first official data on provincial GDP for 2016 and confirm that Alberta experienced a second consecutive year of economic decline. As in 2015, Alberta saw the sharpest drop in GDP among the provinces (Chart 2). It is the first time since 1982-83 that the province has seen GDP contract in back-to-back years. This inFocus examines Alberta's GDP by industry in 2016.

Energy sector spending cuts weigh on GDP growth

With continued spending cuts, lower drilling activity and disruptions from the Fort McMurray wildfire, Alberta's oil and gas sector continued to weigh heaviest on the economy in 2016. Support activities for oil & gas extraction and construction engineering for the sector both fell 32%. Weakness in metal-related manufacturing and machinery manufacturing, which are suppliers to the local and global oil and gas sector, pulled down manufacturing 7.6% in 2016; two full percentage points more than 2015.

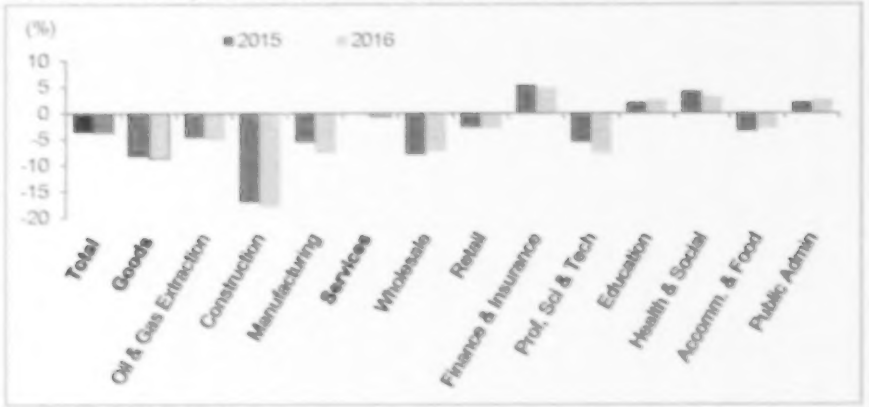
Oil production continues to expand

With the completion of projects initiated before the downturn, non-conventional oil production rose in 2015 despite falling oil prices and led oil & gas extraction GDP 4.4% higher. That momentum was expected to continue through 2016 and support the Alberta economy, but the Fort McMurray wildfire deferred 51 million barrels of production and slowed growth in the sector. Oil & gas extraction GDP grew 0.6% in 2016 as oil sands production growth slowed from 10% in 2015 to 1.4% last year.

Downturn impacts broader economy

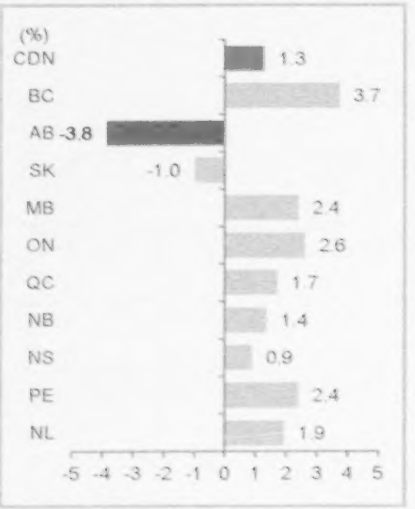
As the impact of lower oil prices spread through the economy, most sectors saw deeper GDP declines or smaller gains in 2016 than 2015. This included the service sector, where GDP fell 0.7% after holding flat in 2015. Growth remained positive, but

Chart 1. Downturn impacts several industries
Alberta real GDP growth by major industries, 2015 and 2016



Source: Statistics Canada

Chart 2. Oil provinces contract
Real GDP growth by industry, 2016



Source: Statistics Canada

What is GDP by Industry?

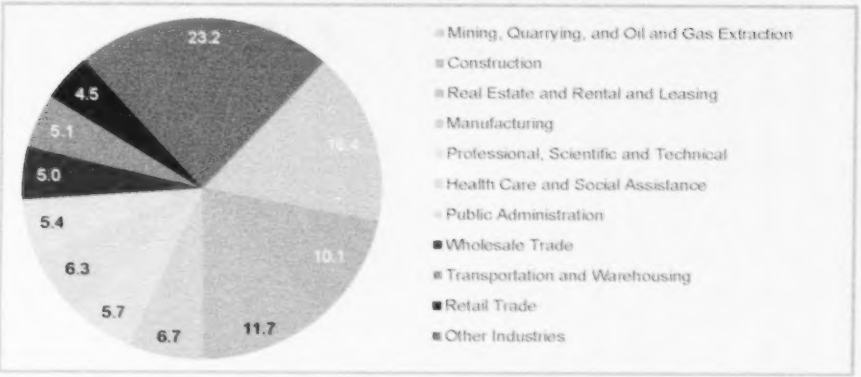
Gross Domestic Product (GDP) by Industry measures the value of output generated by an industry less the value of intermediate inputs purchased from other industries. GDP by industry is sometimes referred to as "value added" as it captures how much value is being added over and above what is used as input. The sum of each industry's GDP yields the GDP for the overall economy.

Alberta's 2016 provincial accounts estimate of GDP, which breaks down GDP by expenditure category and income type, will be released in November 2017. While this estimate differs slightly from total GDP by Industry, growth in the two series track closely over time.

Alberta Government

May 2017
Treasury Board and Finance
Economics and Revenue Forecasting

Chart 3. Oil and gas contribution declines further
Shares of Alberta nominal GDP by major industries, 2016



Source: Statistics Canada

Table 1: Alberta real GDP by major industries and rank among provinces

	2015		2016	
	AB Growth (%)	Provincial Rank	AB Growth (%)	Provincial Rank
All industries	-3.7	10	-3.8	10
Agriculture, forestry, fishing and hunting	-2.1	10	12.3	1
Mining, quarrying, and oil and gas extraction	-4.7	5	-5.2	7
Utilities	-4.3	9	-4.0	10
Construction	-17.1	9	-17.9	10
Manufacturing	-5.6	10	-7.6	9
Wholesale trade	-8.0	10	-7.3	9
Retail trade	-2.9	10	-2.9	10
Transportation and warehousing	-2.6	9	-0.8	9
Information and cultural industries	-0.7	5	-1.4	10
Finance and insurance	5.3	3	4.7	2
Real estate and rental and leasing	-2.2	9	-2.1	7
Professional, scientific and technical services	-5.6	10	-7.8	10
Management of companies and enterprises	-0.6	8	-3.9	6
Administrative and support, waste management and remediation services	-0.2	5	-4.9	10
Educational services	2.0	2	2.4	2
Health care and social assistance	4.2	1	3.1	2
Arts, entertainment and recreation	-3.6	7	-1.3	8
Accommodation and food services	-3.5	10	-3.0	10
Other services (except public administration)	-1.0	10	-3.7	10
Public administration	2.0	2	2.6	1

Source: Statistics Canada

slowed in finance and insurance (+4.7%), real estate and rental and leasing (+2.1%) and health care and social assistance (+3.1%), while contraction accelerated in professional, scientific and technical services (-7.8%). In the goods sector, construction continued to suffer, falling 18% in 2016 after a drop of 17% in 2015.

Promising signs from some sectors

Despite the deepening and spreading of the downturn in 2016, growth accelerated in some sectors. Agriculture, forestry, fishing and hunting rose 12% on the strength of a 14% rise in crop and animal production GDP. At the same time, government-driven sectors provided support to the economy. With strong population and school enrollment growth, educational services GDP rose 2.4% and public administration GDP 2.6%.

Oil and gas share declines

The composition of Alberta's economy continued to change in 2016. In current dollars, the mining, oil and gas extraction industry's share of GDP fell to 16% in 2016 (Chart 3), down from 19% in 2015 and 27% in 2014, as the Fort McMurray wildfire in May 2016 disrupted production and low oil prices continued to weigh on drilling and investment.

Alberta suffers deepest decline

As the oil price collapse carried into 2016 two of Canada's three largest oil producing provinces saw the largest GDP declines. Both Alberta (-3.8%) and Saskatchewan (-1.0%) saw a decline in GDP, while Newfoundland and Labrador (+1.9%) joined the remainder of the country in expanding, as oil production increased markedly.

GDP per capita exceeds all other provinces

Alberta's per capita GDP continues to outpace other provinces. Despite declining 5.5% in 2016, the province's real GDP per capita remained the highest in the country at $67,745 in 2016, 47% above the national figure and 33% above the next highest province (Saskatchewan).

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